

Euro wrap-up

Overview

- Bunds followed US10s higher, while German jobless claims rose the most in seven months and job vacancies fell to a three-year low.
- Gilts also made gains even as a UK retail survey suggested a pickup in sales volumes in May.
- Wednesday will bring the final May services PMIs, and April data for euro area PPI and French IP.

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Daily bond market movements

Bond	Yield	Change
BKO 2.9 06/26	2.989	-0.031
OBL 2.1 04/29	2.579	-0.038
DBR 2.2 02/34	2.538	-0.040
UKT 0% 01/26	4.324	+0.002
UKT 0½ 01/29	4.086	-0.025
UKT 4% 01/34	4.181	-0.038

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

German jobless claims rise the most in seven months while job vacancies fall to 3-year low

While the [euro area unemployment](#) rate fell to a new series low of 6.4% in April, today's figures from Germany and Spain suggested that labour market momentum is not as firm as that headline figure might imply. The return of [German GDP](#) to growth in Q1 (0.2%Q/Q) had coincided with a very modest increase in employment of 29k. And today's figures pointed to only a slight firming in job growth at the start of Q2, with the number of people in work in April rising by 25k. While that represented the biggest monthly increase in thirteen months, it also marked growth of just 0.1%M/M and remained well below the average monthly rise in the five years before the pandemic (43k). And compared with a year earlier, employment was still up just 0.2% (110k). Moreover, the claimant count rate moved sideways in May at 5.9% for a sixth consecutive month. And the number of people in unemployment rose by 25k – the most in seven months – to 2.76mn, the highest level in more than two years. While surveys point to a pickup in recruitment intentions in services, they also suggest that firms in manufacturing and construction are still looking to cut headcount. And with the number of job vacancies having declined in all but one month in the past 24 to a three-year low of 706k, today's figures still suggest that the labour market in the euro area's largest member state is becoming gradually less tight.

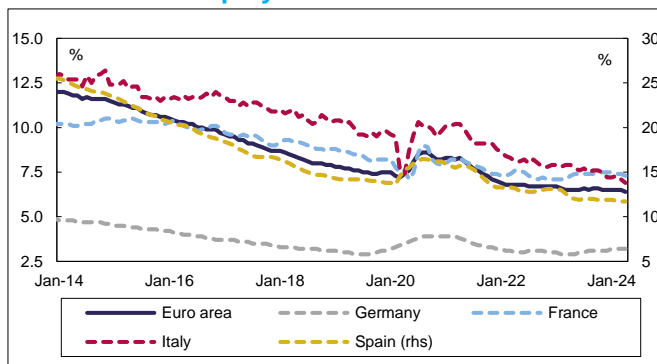
Spanish employment at record high, but joblessness also edged up in May in adjusted terms

Following the more rapid growth in [economic output](#) in Spain in Q1 (0.7%Q/Q), and tallying with upbeat survey measures of hiring intentions, today's Spanish labour market figures reported a further notable increase in the number of people in employment in May, by 62.5k to a new record high of 21.14mn. This represented growth of some 2.4% (500k) compared with a year earlier. And the Ministry of Employment and Social Security confirmed a further notable decline in registered unemployment for a seventh consecutive month, by 58.7k to 2.61mn, the lowest level in sixteen years. The drop was led by services (-44.5k) as firms geared up for the summer tourism season, while there were also modest declines in manufacturing and construction. But when adjusting for seasonal effects, today's figures pointed to a second increase in joblessness out of past three months, albeit by a modest 4.5k, to be still down 133k compared with a year ago. And with the Commission survey having flagged a moderation in hiring intentions in its most recent survey, we expect Spanish jobs growth to slow over coming months.

The day ahead in the euro area

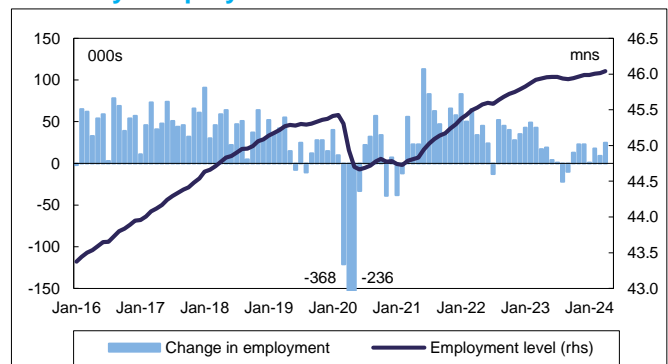
After [consumer core goods inflation](#) fell to just 0.1%Y/Y in May and yesterday's final manufacturing PMIs implied that cost growth continues to slow, tomorrow's release of producer price figures for April will provide further insight into disinflation in

Euro area: Unemployment rates*



*ILO measure. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Employment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

the factory sector. Prices are expected to fall for a sixth successive month. But given base effects, the annual pace of decline in producer prices will slow to the softest since last June, albeit still marked at -5.3%Y/Y. Wednesday will also bring final services PMI results for May. The flash release saw the headline activity index move sideways at 53.3, the joint-highest for a year, with the new business component up to a 13-month high of 53.6. And while services inflation jumped in May, policymakers might take some comfort from the easing price pressures in the sector implied in the PMIs, with the prices charged index down 1.8pts to a three-year low of 54.1. Among the member states, French industrial production figures for April are expected to report a modest increase on the month, albeit merely reversing the decline in March (-0.3%M/M).

UK

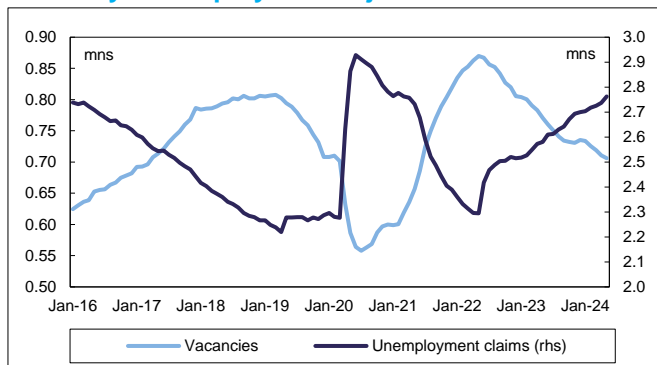
Retail sales survey suggests only modest pickup in spending in May

While [retail sales](#) fell sharply in April as unseasonably wet weather dampened demand on the High Street, surveys suggest that spending on goods made a modest recovery last month. Consistent with the [CBI's distributive trades](#) survey, today's BRC retail monitor suggested that the value of total sales rose 0.7%Y/Y in May following a slump of 4.4%Y/Y in April. But smoothing for monthly volatility – associated not least with the timing of Easter – sales were up just 0.3%3M/Y, a 22-month low. And like-for-like sales were up a more modest 0.4%Y/Y to be merely flat on a three-month basis. Like-for-like food sales rose 2.9%3M/Y, the softest growth rate in two years, while non-food store sales fell 3.3%3M/Y. Indeed, the BRC reported that while the early Bank Holiday weekend brought increased spending on DIY and gardening equipment as well as strong sales of clothing and electronics, bad weather continued to weigh on demand over the rest of the month. Consumers also increased spending online in May, with sales rising (1.5%3M/Y) for the first time in almost three years. The downtrend in the value of sales in part reflects steady disinflation on the High Street. Indeed, when adjusting for the BRC's measure of shop price inflation, growth in retail sales volumes rose to 0.1%Y/Y, the second-strongest pace since March 2022, albeit barely better than flat. Despite improving confidence and rising real disposable incomes, consumers remain reluctant to increase spending on big-ticket items, suggesting that retail sales growth will remain relatively subdued. But soft spending on goods will be offset by higher expenditure on services. As such, we expect household consumption to provide a boost to GDP growth over the summer and beyond.

The day ahead in the UK

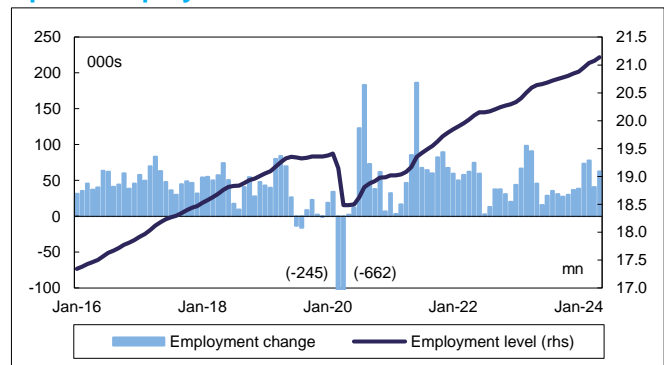
Wednesday will bring just the final services PMIs and new car registrations figures for May. The flash UK PMIs signalled a notable slowdown in growth momentum in the middle of Q2, with the activity index declining 2.1pts to 52.9, a six-month low, and the new business component down 2.6pts to 51.8, similarly the lowest since November. But having implied a spike in

Germany: Unemployment & job vacancies



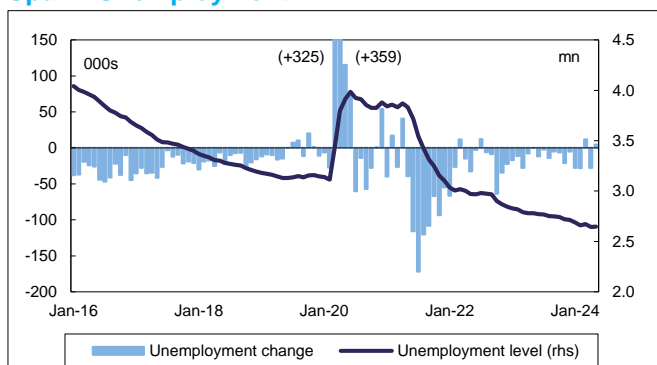
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Spain: Employment



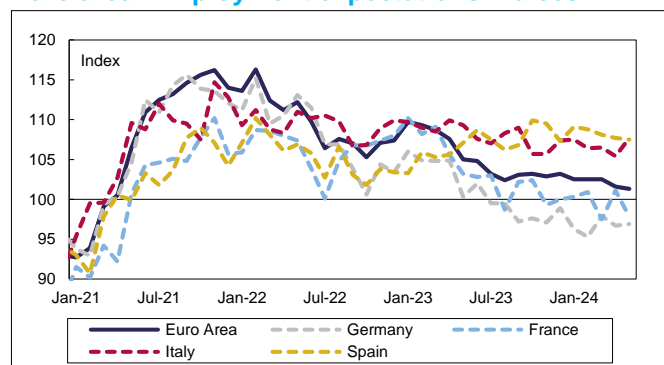
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Spain: Unemployment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

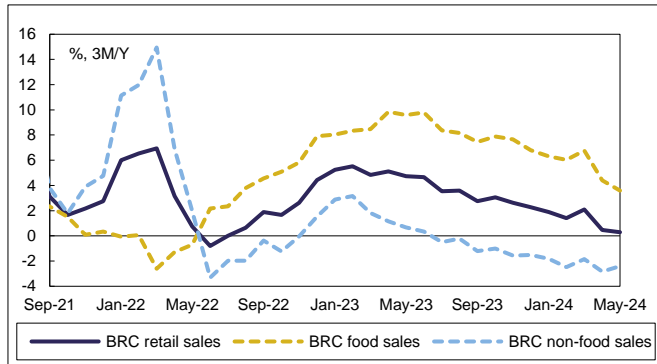
Euro area: Employment expectations indices



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

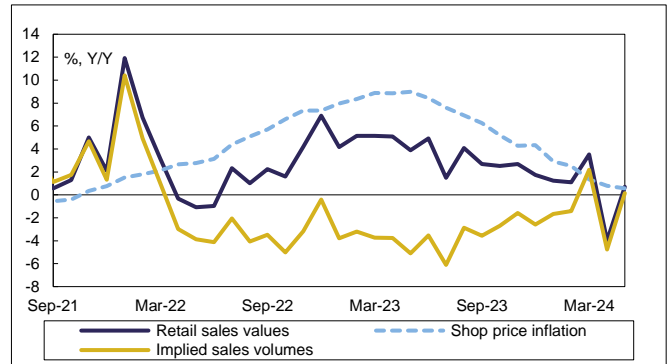
cost burdens in April – associated not least with the near-10% hike in the National Living Wage – the survey also suggested an easing in price pressures, with the input cost index dropping to the softest for more than three years and the prices charged index also down to its lowest in three years.

UK: BRC retail sales growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC retail sales & shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	Unemployment rate % (change 000s)	May	5.9 (25)	5.9 (8)	5.9 (10)	- (11)
Spain	Unemployment (employment) change 000s	May	-58.7 (62.5)	-	-60.5 (40.7)	-
UK	BRC retail monitor – like-for-like sales Y/Y%	May	0.4	1.2	-4.4	-

Auctions

Country	Auction
Germany	sold €3.69bn of 2.9% 2026 bonds at an average yield of 3.01%
UK	sold £2.0bn of 4% 2063 bonds at an average yield of 4.557%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Final manufacturing PMI	May	47.3	47.4	45.7	-
Germany	Final manufacturing PMI	May	45.4	45.4	42.5	-
France	Final manufacturing PMI	May	46.4	46.7	45.3	-
	New car registrations Y/Y%	May	-2.9	-	10.9	-
Italy	Manufacturing PMI	May	45.6	47.9	47.3	-
	New car registrations Y/Y%	May	-6.6	-	7.5	-
Spain	Manufacturing PMI	May	54.0	52.5	52.2	-
	New car registrations Y/Y%	May	3.4	-	23.1	-
UK	Final manufacturing PMI	May	51.2	51.3	49.1	-

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	09.00	Final services (composite) PMI	May	53.3 (52.3)	53.3 (51.7)
	10.00	PPI Y/Y%	Apr	-5.3	-7.8
Germany	08.55	Final services (composite) PMI	May	53.9 (52.2)	53.2 (50.6)
	-	New car registrations* Y/Y%	May	-	19.8
France	07.45	Industrial production M/M% (Y/Y%)	Apr	0.5 (0.7)	-0.3 (0.7)
	08.50	Final services (composite) PMI	May	49.4 (49.1)	51.3 (50.5)
Italy	08.45	Services (composite) PMI	May	-	54.3 (52.6)
Spain	08.15	Services (composite) PMI	May	-	56.2 (55.7)
UK	09.30	New car registrations Y/Y%	May	-	1.0
	09.30	Final services (composite) PMI	May	52.9 (52.8)	55.0 (54.1)

Auctions and events

Germany	10.30	Auction: €3.0bn of 2.4% 2030 bonds
UK	10.00	Auction: £4.0bn of 3.75% 2027 bonds

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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